

## MEMORANDUM

**TO:** Richard M. Scrushy  
**FROM:** Teresa L. Rubio  
**DATE:** January 4, 1996  
**SUBJECT:** Ernst & Young Evaluation Program

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As a follow-up to our meeting on January 2, 1996, I would like to verify my understanding of the program you proposed to be handled by Ernst & Young, as well as, bring potential issues to your attention.

1. We are to retain Ernst & Young staff auditors throughout the country to perform unannounced site evaluations at our facilities.

***POTENTIAL ISSUE:** With Ernst & Young handling our annual audit, as well as the site evaluations, issues arising during these visits could affect our year end audit.*

**SOLUTION:** Retain another firm, possibly Peat Marwick, to handle the site evaluations.

2. Lower level personnel (i.e. staff auditors) with Ernst & Young would be trained by HEALTHSOUTH to perform the site evaluations. One site visit per week, during off-season weeks, would be performed by various locations throughout Ernst & Young's network.

***POTENTIAL ISSUE:** An investment of time and training would be made on a non-HEALTHSOUTH employee.*

**SOLUTION:** Hire two new college graduates in internal audit whose only function is to perform site evaluations. This would provide a new graduate with a career opportunity as well as develop an entry level training program for a potential long-term employee. By maintaining the program in-house, we can better control the consistency in facility evaluations and monitor progress over a given time frame.

3. We have made an initial financial commitment of \$500,000 to Ernst & Young to perform this program.

**POTENTIAL ISSUE:** *This is a significant commitment of company resources to an outside source. An outside source will not be able to provide the consistency, quality and efficiency of an in-house program.*

**SOLUTION:** Develop an in-house program which will cost approximately \$300,000 and produce 750 - 800 site evaluations per year.

Successful implementation of this program will improve the quality of the facilities as HEALTHSOUTH strives to get the standard of excellence in the healthcare industry.

I would like the opportunity to further this program with you at your convenience.

TLR/tle

cc: Jim Bennett  
Daryl Brown  
Aaron Beam  
Bill Owens